

Meeting the Challenge of Change

2007 ANNUAL REPORT





A Message From The Lottery Commission

JEAN NORTHENOR

Chairperson

Hoosier Lottery Commission

We believe we are poised to address the challenges of the future with a firm understanding of where we have been. With an eye toward innovation, we always seek to maximize the return on investment for the citizens of our Hoosier State.



Understanding and responding to change is important in any organization, particularly one that touches as many people as does the Hoosier Lottery.

It gives me such great pleasure to report that the executive staff in place at the Hoosier Lottery today is prepared to meet the challenge of change. Under the guidance of Executive Director Kathryn A. Densborn, the Hoosier Lottery had another excellent year, with revenue of \$789 million and profit of \$216 million: in both cases, the second-highest totals in our history. This is wonderful news for people across the State of Indiana—our prize winners, our retailers, our public servants and our taxpayers.

Today, we have in place a team that is experienced, enthusiastic and dedicated to responsible growth and profitability. We believe we are poised to address the challenges of the future with a firm understanding of where we have been. With an eye toward innovation, we always seek to maximize the return on investment for the citizens of our Hoosier State.

It is in this spirit—and with great pride—that I present the Hoosier Lottery's Annual Report for Fiscal Year 2007. I am certain you will be impressed with our results.


Jean Northenor

A Message From Executive Director

KATHRYN A. DENSBORN

When Governor Mitch Daniels asked me to become executive director of the Hoosier Lottery in December 2006, I was honored. My varied experiences in business and in public policy certainly prepared me for the position, but the prospect of directing an enterprise with revenue of more than three-quarters of a billion dollars a year was daunting, to say the least.

Here at the close of Fiscal Year (FY) ending June 30, 2007, I am happy to report this has been an amazing experience in every way. I have come to understand the Hoosier Lottery is a vital part of the financial landscape of the State of Indiana, and I have made it my mission to help this organization grow responsibly in the face of changes in technology, the retail marketplace, our player base and our state economy.

FY07 was another exceptional year for the Hoosier Lottery. Our sales of \$789 million reflected the second-highest total in Hoosier Lottery history.

Our excellent sales also meant a remarkable year for nearly 4,000 retailers, who earned approximately \$55 million in commissions from the sale of Hoosier Lottery products over the course of the year. We are looking forward to strengthening our relationships with our retail partners in the years ahead.

We made a commitment to innovation and variety in FY07, by introducing four new Scratch-off games every three weeks. We were also the first lottery in the nation to introduce cross-product redemption games that combined the immediate reward of Scratch-off games with the delayed reward of draw games.

Hoosier Lottery players also had a banner year. In FY07, we awarded a total of \$478 million in prizes—approximately \$1.31 million a day—to millions of winners. Prizes were awarded to residents of every county in the State of Indiana, which reflects our reach and the popularity of our products.



Most importantly, the Hoosier Lottery returned a total profit of \$216 million to the State of Indiana—the second-highest total ever. Truly, the Hoosier Lottery is one business that benefits all Hoosiers.



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I am exceedingly appreciative of the dedication of a team of people who have made working at the Hoosier Lottery a genuine pleasure. We have an extraordinary staff of professionals who are working day-in and day-out to understand and address the challenges of change we face—and to meet those challenges with creative solutions to help us grow in the most responsible way possible. Together, we are committed to adding to the legacy of the Hoosier Lottery.

Kathryn A. Densborn
*Executive Director
Hoosier Lottery*

The Year In Review

No business stands still—least of all the entertainment business. Every year brings new challenges, new choices, and new competition for people's time and attention. As one of the largest entertainment businesses in the State of Indiana, the Hoosier Lottery must continually evolve in anticipation of, and in response to, changes in the marketplace.



OUR HOOSIER PLAYER

Since the inception of the Hoosier Lottery, our games have been popular with many Indiana citizens. Research in 2007 indicated 54% of all Indiana residents age 18 and older had played at least one Hoosier Lottery game in the previous year. In fact, more Indiana citizens had enjoyed playing a Hoosier Lottery game in the last year than had attended a concert, the theater, or a pro sports game.

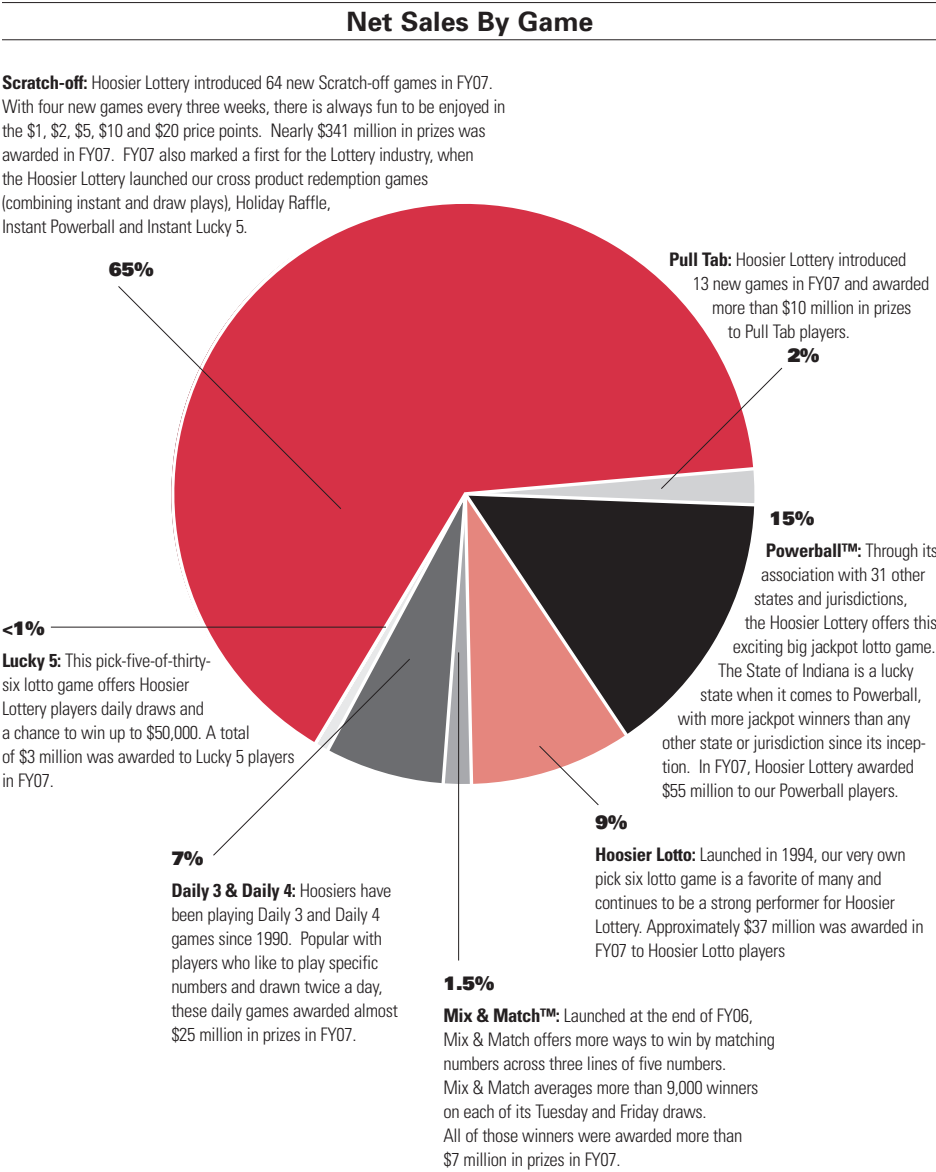
Look at a Hoosier Lottery player, and you will see someone who looks a lot like the average Hoosier. Our player is equally as likely to be male as female. Players come from every age group, but the median age of our player is slightly older than the average citizen. Income has little impact on frequency of play. Citizens enjoying our games are more educated in that 55% have some college to a college degree compared to 50% for the average Hoosier.

OUR SECURITY AND INTEGRITY

It is not enough to offer exciting and fun games. We must do so with the utmost security and integrity. Our security staff at headquarters and through-out the state plays an often unseen but vital role at the Hoosier Lottery. For our instant products, we take extraordinary measures to ensure the games are not compromised at any point from initial design to ultimate purchase. In FY07, that meant testing, loading and releasing 13 new Pull Tab games and 64 new Scratch-off games. For draw games, our security staff, in conjunction with our IT staff and our external auditor, employed a consistently verifiable process using the latest technology to ensure each of the 708 drawings were executed in a fair and secure manner.

OUR COMMITMENT TO FUN & INNOVATIVE PRODUCTS

The Hoosier Lottery strives to develop and promote games which appeal to our players. We have an ongoing commitment to understanding our players and bringing them new and different ways to play.



OUR WINNERS

When thinking of Lottery winners, it is only natural to imagine players who have won. In fact, the Hoosier Lottery paid out \$478 million in prizes to millions of winners in FY07, the vast majority won by residents of the State of Indiana.

The Hoosier Lottery created a winning circle beyond our players by adding customers, suppliers and employees to the list of winners. Approximately 4,000 retailers earned \$55 million in commissions and created satisfied customers through their selling of Hoosier Lottery products. Additionally, as in years past, the Hoosier Lottery hired many Indiana companies to supply services including consulting, printing, media production, and IT execution to help us be excellent in all that we do.

It was through this winning circle that the Hoosier Lottery once again fulfilled its purpose of maximizing return to the state for the benefit of the citizens of Indiana. In FY07, that meant \$216 million dollars. Of this amount, \$156 million will go to the Build Indiana Fund, which provides infrastructure projects in all 92 counties and reduces excise taxes. The remaining \$60 million will go to the Teachers' Retirement Fund and the Pension Relief Fund of firefighters and police officers.

OUR COMMITMENT TO GROWTH

To continue to achieve the growth from this maturing business, the Hoosier Lottery is investing in strategic planning, research and development, new technology and enhancing its team of industry-leading resources. We believe through these efforts, the Hoosier Lottery and its products will stay at the top of the list of fun, cool and innovative entertainment choices for Indiana's citizens.

STATEMENTS OF NET ASSETS

AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 92,834,599	\$ 77,842,704
Investments-current portion	7,861,153	7,024,000
Accounts receivable	31,271,899	29,301,475
Prepaid expenses	5,386,399	3,087,160
Accrued interest receivable	534,603	67,157
Ticket inventory	95,713	348,883
Total current assets	137,984,366	117,671,379
NONCURRENT ASSETS:		
Long-term investments- less current portion	74,315,459	65,889,955
Restricted assets	8,013,262	8,992,723
Capital assets- net	2,159,263	2,806,630
Total noncurrent assets	84,487,984	77,689,308
TOTAL	\$ 222,472,350	\$ 195,360,687
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
State	\$ 58,303,566	\$ 51,594,890
Trade	9,019,348	7,729,426
Current portion of prize liability	72,198,080	58,067,505
Deferred revenue	438,306	1,059,373
Other accrued expenses	1,799,562	2,809,780
Total current liabilities	141,758,862	121,260,974
LONG-TERM LIABILITIES—Prize liability less current portion	75,713,488	67,512,080
Total liabilities	217,472,350	188,773,054
NET ASSETS:		
Unrestricted	2,840,737	3,781,003
Invested in capital assets	2,159,263	2,806,630
Total net assets	5,000,000	6,587,633
TOTAL	\$ 222,472,350	\$ 195,360,687

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Instant ticket sales- net	\$ 525,409,657	\$ 521,604,691
Draw ticket sales	263,646,309	294,757,423
Total operating revenues	789,055,966	816,362,114
OPERATING EXPENSES:		
Direct game expenses:		
Instant game prizes	350,606,825	345,848,926
Draw games prizes	127,204,747	144,199,439
Television game show prizes	—	3,078,444
	477,811,572	493,126,809
Indirect game expenses:		
Retailer commissions	55,076,782	56,734,312
Ticket printing costs	8,163,519	8,683,043
Advertising and promotion	7,982,552	8,837,971
Draw professional services	7,718,453	9,629,621
ITVM lease and courier services	3,931,590	3,707,991
	82,872,896	87,592,938
Total game expenses	560,684,468	580,719,747
OTHER OPERATING EXPENSES:		
Salaries, wages, and benefits	12,639,843	12,420,682
General and administrative	4,247,820	4,807,247
Total other operating expenses	16,887,663	17,227,929
Total operating expenses	577,572,131	597,947,676
OPERATING INCOME	211,483,835	218,414,438
NON-OPERATING REVENUES (EXPENSES):		
Interest income	3,984,323	3,191,607
Net increase (decrease) in fair value of investments	126,610	(3,730,714)
Other income, net	385,897	204,192
Total non-operating revenues (expenses)	4,496,830	(334,915)
NET INCOME PRIOR TO DISTRIBUTIONS	215,980,665	218,079,523
DISTRIBUTIONS:		
Distributions to the State	(159,264,732)	(164,897,000)
Distributions to be paid to the State	(58,303,566)	(51,594,890)
Total distributions	(217,568,298)	(216,491,890)
CHANGES IN NET ASSETS	(1,587,633)	1,587,633
NET ASSETS- Beginning of year	6,587,633	5,000,000
NET ASSETS- End of year	\$ 5,000,000	\$ 6,587,633

The Financial Statements are excerpts from the Hoosier Lottery's audited financial statements for the years ended June 30, 2007 and June 30, 2006. Complete financial statements are available upon request to Controller, Hoosier Lottery, P.O. Box 6124, Indianapolis, IN 46206

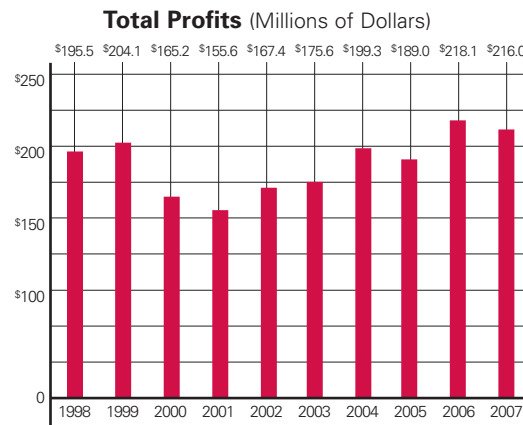
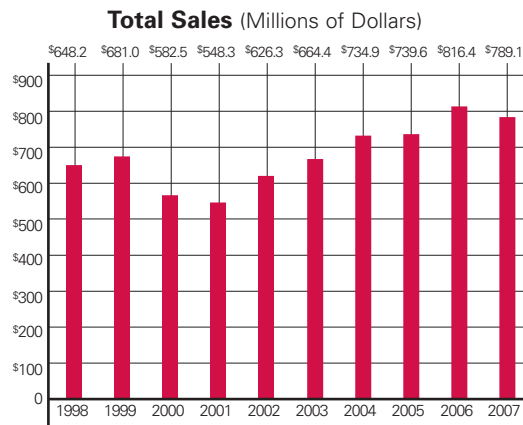
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from ticket sales	\$ 786,444,176	\$ 817,750,417
Payments to ticket winners	(455,479,589)	(491,237,293)
Payments to employees	(13,650,061)	(11,384,237)
Payments to suppliers and vendors	(86,365,705)	(91,389,121)
Net cash provided by operating activities	230,948,821	223,739,766
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Distributions to the State	(210,859,622)	(209,946,125)
Other income, net	385,897	204,192
Net decrease in restricted assets	979,461	232,032
Net cash used in noncapital and related financing activities	(209,494,264)	(209,509,901)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(873,126)	(1,089,317)
Proceeds from the sale of capital assets	29,634	99,667
Net cash used in capital and related financing activities	(843,492)	(989,650)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(16,370,047)	(3,397,777)
Investment maturities	7,234,000	6,841,000
Interest income	3,516,877	3,324,483
Net cash (used in) provided by investing activities	(5,619,170)	6,767,706
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,991,895	20,007,921
CASH AND CASH EQUIVALENTS- Beginning of year	77,842,704	57,834,783
CASH AND CASH EQUIVALENTS- End of year	\$ 92,834,599	\$ 77,842,704

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

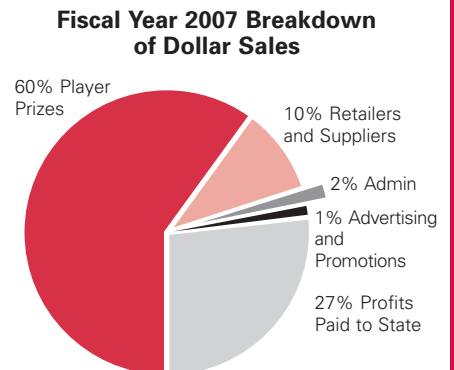
	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 211,483,835	\$ 218,414,438
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,511,158	1,237,736
Change in provision of doubtful accounts	54,313	59,034
Change in provision of ticket returns	(317,090)	321,008
Gain on sale of fixed assets	(20,299)	(60,414)
Changes in certain assets and liabilities:		
Accounts receivable	(1,707,647)	656,348
Instant ticket inventory	253,170	(29,641)
Prepaid expenses	(2,299,239)	(638,588)
Accounts payable- trade	1,289,922	441,557
Deferred revenue	(621,067)	412,327
Other accrued expenses	(1,010,218)	1,036,445
Prize liability	22,331,983	1,889,516
Net cash provided by operating activities	\$ 230,948,821	\$ 223,739,766
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND RELATED FINANCING ACTIVITIES -		
Net increase (decrease) in fair value of investments	\$ 126,610	\$ (3,730,714)

The Financial Statements are excerpts from the Hoosier Lottery's audited financial statements for the years ended June 30, 2007 and June 30, 2006. Complete financial statements are available upon request to Controller, Hoosier Lottery, P.O. Box 6124, Indianapolis, IN 46206



Net Sales By Game (Millions of Dollars)

	2007	2006
Scratch-off	\$510.2	504.9
Pull Tab	15.2	16.7
Powerball	118.9	159.8
Hoosier Lotto	69.1	65.6
Mix & Match	11.5	1.7
Daily 3/4	57.8	59.4
Lucky 5	6.4	7.6
Other	-	.7
Grand Total	\$789.1	\$816.4



KEY STAFF (as of 12/31/07):

Kathryn A. Densborn, Executive Director

W. Edward Benton, Chief Financial Officer

Michael Bare, Director of Security

Susan Golightly, Director of Marketing

Andrew Jones, Director of Information Technology

Timothy Kuehr, Controller

Irene Lange, Director of Administration

Jesse D. Lanham, Information Security Officer

Andrew Reed, Director of Public Relations

Carrie Stroud, Internal Auditor

Mark Thacker, Director of Sales

STATE LOTTERY COMMISSION OF INDIANA (as of 12/31/07):

D. Jean Northenor

Chairperson, Warsaw

Todd A. Etzler

Member, Valparaiso

Gregory M. Fitzloff

Member, Georgetown

Todd Stuart

Member, Indianapolis

Paul Thrift

Member, Terre Haute

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